Bureau des services financiers : Annual report, 2002

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Minister of Finance
Government of Québec
Parliament Buildings, Québec

Dear Sir, Madam:

I am honoured to submit the Annual Report of the Bureau des services financiers for the year ending December 31, 2002.

In addition to the audited financial statements of the Bureau, this Report gives an account of its main activities and achievements for year 2002.

Respectfully yours,

Louise Champoux-Paillé

Louise Champoux-Paillé, MBA, Economist
President

When this document went to print, the Minister of Finance had not yet been appointed, further to the elections held on April 14, 2003.

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Mission

The Bureau des services financiers is a non-governmental organization financed by the industry, whose mission is to ensure the protection of the public within the scope of the *Act respecting the distribution of financial products and services*.

The Bureau des services financiers therefore oversees the management of the provisions of this Act and its regulations. The following groups are subject to this Act:

- certificate holders (representatives) and registrants (independent representatives, firms and independent partnerships); and
- insurers and distributors, in the context of the distribution without a representative;

For the following sectors:

- insurance of persons,
- group insurance of persons,
- damage insurance,
- claims adjustment,
- financial planning,
- group savings plan brokerage,
- investment contract brokerage,
- scholarship plan brokerage.

Primary Functions

- Drafting most of the regulations.
- Issuing rights of practice to the clientele referred to by the Act.
- Inspecting and sanctioning registrants' activities.
- Regulating the distribution without a representative.
- Acting as an Information and Referral Centre.

Members of the Board of Directors

FROM LEFT TO RIGHT

STANDING: **Louise Viau, Martin Rochon, Joanne Vézina, Renée Piette, Paul-André Simard, Constance Lemieux, Yves Morency, Nathalie Saint-Pierre, Yvon Lamontagne, Réjean Ross**

SITTING: **Madeleine Plamondon, Yves Michaud, Louise Champoux-Paillé, Charles Pelletier**

ABSENT: **François Reneault**

The Bureau des services financiers is administered by a fifteen-member board. Ten of the members are appointed by the Minister of Finance of the Government of Québec, including the president and the vice-president.

Out of the ten members appointed by the Minister, five are chosen to represent the general public and five represent the financial planning, insurance of persons and damage insurance sectors, deposit institutions or mutual funds.

These last five members come from the Chambres, namely three from the Chambre de la sécurité financière and two from the Chambre de l'assurance de dommages.

Representatives of the general public

PRESIDENT

Louise Champoux-Paillé, MBA, Economist

VICE-PRESIDENT

Yves Michaud, Founding President, Association de protection des épargnants et investisseurs du Québec inc. (APEIQ)

Charles Pelletier, FCA, Professor Emeritus, Université Laval

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur

Nathalie Saint-Pierre, Director, Union des consommateurs

Representatives of the industry

FINANCIAL PLANNING

Réjean Ross, C. Adm., F. Pl., C.L.U.

INSURANCE OF PERSONS

Constance Lemieux, First Vice-President, Technology and E-Business, Desjardins Financial Security

DAMAGE INSURANCE

Yvon Lamontagne, F.C.I.P., Project Leader for the President, AXA Canada

DEPOSIT INSTITUTIONS

Yves Morency, Vice-President, Governmental Relations, Fédération des caisses Desjardins du Québec

MUTUAL FUNDS

Joanne Vézina, MBA, Vice-President, Client and Corporate Development, Talvest Fund Management

Three Representatives from the Chambre de la sécurité financière

Renée Piette, CA, Director, Compliance Manager, Wealth Management, National Bank of Canada, Vice-President, Securities, Chambre de la sécurité financière, replacing Danielle Surprenant

Martin Rochon, R.L.U., F. Pl., President, Invessa services financiers and Board Chairman, Invessa régimes collectifs, President of the Chambre de la sécurité financière

Louise Viau, C.L.U., F. Pl., Services financiers Kingsbury-Viau, Vice-President, Insurance, Chambre de la sécurité financière, replacing Alain C. Roy

Two Representatives from the Chambre de l'assurance de dommages

François Reneault, B. Sc., F.C.I.P., Vice-President, Claims, AXA Insurance, Vice-President of the Chambre de l'assurance de dommages

Paul-André Simard, A.I.B., Damage Insurance Broker, President of the Chambre de l'assurance de dommages

Committees of the Bureau

Audit Committee

CHAIR OF THE COMMITTEE:

Charles Pelletier, FCA, Professor Emeritus, Université Laval, Director of the Bureau

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Yves Morency, Vice-President, Governmental Relations, Fédération des caisses Desjardins du Québec, Director of the Bureau

Réjean Ross, C. Adm., F. Pl., C.L.U., Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Claude Prévost, CA, General Manager

Marie-France Tanguay, Director, Accounting and Administrative Services

Consumer-Liaison Committee

CHAIR OF THE COMMITTEE:

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Constance Lemieux, First Vice-President, Technology and E-Business, Desjardins Financial Security, Director of the Bureau

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Sophie Garon, Director, Information and Referral Centre

Lise Nadeau, Attorney

Committee for Harmonization Between Group Savings Plans and Segregated Funds

CHAIR OF THE COMMITTEE:

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Sylvie Coulombe, Marketing Director (Québec), Clarica Financial Services Inc.

Rodrigue Julien, C.L.U., Groupe Nodus inc.

Ann Leduc, MBA, Head of the Regulations Department, Office of the General Counsel and Legislation and Regulation Division, Commission des valeurs mobilières du Québec

Yves Millette, B.A., LL.L, Chief Vice-President, Québec Affairs, Canadian Life and Health Insurance Association Inc. (CLHIA)

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

Alain Roch, B.A., LL.L., Vice-President, Legal Affairs, La Capitale Assurances MFQ inc.

Danielle Surprenant, C.L.U., F. Pl., Director, Annuities and Investments, Agence G. Gadoua inc.

Pierre Trépanier, Chief Executive Officer, Québec, Royal Investment Fund

Joanne Vézina, MBA, Vice-President, Client and Corporate Development, Talvest Fund Management, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Nathalie G. Drouin, Director, Legal Affairs

Jean Mathieu, Director, Training and Pre-certification

Monitoring Committee

CHAIR OF THE COMMITTEE:

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Yves Michaud, Founding President, Association de protection des épargnants et investisseurs du Québec inc. (APEIQ), Vice-President of the Bureau

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

Yves Morency, Vice-President, Governmental Relations, Fédération des caisses Desjardins du Québec, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Anne-Marie Beaudoin, Corporate Secretary

Committee on Distribution Plans – Access to Insurance

CHAIR OF THE COMMITTEE:

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

Constance Lemieux, First Vice-President, Technology and E-Business, Desjardins Financial Security, Director of the Bureau

Martin Rochon, C.L.U., F. Pl., President, Invessa services financiers, and Board Chairman, Invessa régimes collectifs, President of the Chambre de la sécurité financière, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Anne-Marie Beaudoin, Corporate Secretary

Nathalie G. Drouin, Director, Legal Affairs

Committee on Distribution Plans – Task Force on the Concept of Offer

Yvon Lamontagne, F.C.I.P., Project Leader for the President, AXA Canada, Director of the Bureau

Constance Lemieux, First Vice-President, Technology and E-Business, Desjardins Financial Security, Director of the Bureau

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

Danielle Surprenant, C.L.U., F. Pl., Director, Annuities and Investments, Agence G. Gadoua inc., as an individual member

PERMANENT OFFICE STAFF OF THE BUREAU

Claudine Chaloux, Notary, Coordinator, Inspection and Investigations Department

Lise Nadeau, Attorney

Ad Hoc Committee on Professional Liability Insurance

CHAIR OF THE COMMITTEE:

Martin Rochon, R.L.U., F. Pl., President, Invessa services financiers, and Board Chairman, Invessa régimes collectifs, President of the Chambre de la sécurité financière, Director of the Bureau

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Yvon Lamontagne, F.C.I.P., Project Leader for the President, AXA Canada, Director of the Bureau

Yves Morency, Vice-President, Governmental Relations, Fédération des caisses Desjardins du Québec, Director of the Bureau

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Nancy Chamberland, Notary, Director, Certification and Registration

Ad Hoc Committee on Disclosures

CHAIR OF THE COMMITTEE:

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Yvon Lamontagne, F.C.I.P., Project Leader for the President, AXA Canada, Director of the Bureau

Constance Lemieux, First Vice-President, Technology and E-Business, Desjardins Financial Security, Director of the Bureau

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

Martin Rochon, R.L.U., F. Pl., President, Invessa services financiers, and Board Chairman, Invessa régimes collectifs, President of the Chambre de la sécurité financière, Director of the Bureau

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Anne-Marie Beaudoin, Corporate Secretary

Nathalie G. Drouin, Director, Legal Affairs

Joint Committee of the Bureau des services financiers and the Fonds d'indemnisation des services financiers

Louise Champoux-Paillé, MBA, Economist, President of the Bureau

Pierre A. Hébert, Financial Security Advisor, Group Savings Plan Representative, Financial Planner, member of the Ordre professionnel des administrateurs agréés du Québec, Director of the Fonds d'indemnisation des services financiers

Gilbert Lalonde, Financial Security Advisor, Group Savings Plan Representative, Registered Life Underwriter (R.L.U.), Advisor in group insurance and group annuity plans, President of the Fonds d'indemnisation des services financiers

Yvon Lamontagne, F.C.I.P., Project Leader for the President, AXA Canada, Director of the Bureau

Yves Morency, Vice-President, Governmental Relations, Fédération des caisses Desjardins du Québec, Director of the Bureau

John Ruggieri, Financial Security Advisor, Financial Planner, Registered Life Underwriter (R.L.U.), Director of the Fonds d'indemnisation des services financiers

Nathalie Saint-Pierre, Director, Union des consommateurs, Director of the Bureau

Lise Tremblay, Attorney, Professor, Assistant Director of the École du Barreau, Vice-President of and representing the public, Fonds d'indemnisation des services financiers

PERMANENT OFFICE STAFF OF THE BUREAU AND THE FONDS

Anne-Marie Beaudoin, Corporate Secretary and the Fonds of the Bureau

Annie Pigeon, Director of Operations, Fonds d'indemnisation des services financiers

Claude Prévost, CA, General Manager of the Bureau

Round table with colleges

REPRESENTING THE COLLEGES

François Allard, Director of Studies, Direction des études, Collège Montmorency

André Gingras, Director, Continuing Professional Education, Collège de Sainte-Foy

Flavius Pelletier, Director, Cégep@distance

REPRESENTING THE MINISTÈRE DE L'ÉDUCATION

Ghislaine Plamondon, Responsible for the Administration, Business and Computer Science Sector, Direction des programmes, Ministère de l'Éducation

REPRESENTING THE INDUSTRY

Pierre Michaud, First Vice-President, Claims, Groupe Desjardins, Assurances générales

Marc Pontbriand, representing Direct Insurance Companies and Brokers' Insurance Companies

Joan-Renée Bernard, representing small firms and President of the Regroupement des cabinets de courtage d'assurance du Québec (RCCAQ)

Lucie Preneveau, Claims Adjuster, Crawford Expertises Canada inc., representing the Association des experts en sinistre indépendants du Québec inc. (AESIQ)

Lucien Bergeron, BA, F.C.I.P., Chief Executive Officer, Institut d'assurance de dommages du Québec (IADQ)

Serge Lyras, President and Director of Operations, Groupe Lyras inc.

REPRESENTING THE BUREAU

Louise Champoux-Paillé, MBA, Economist, President

Nancy Chaput, Education Advisor

Nicole Lemoyne, Examination Coordinator

Jean Mathieu, Director, Training and Pre-certification

Claude Prévost, CA, General Manager

Task Force on Damage Insurance Examinations

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

François Reneault, B. Sc., F.C.I.P., Vice-President, Claims, AXA Insurance, Vice-President of the Chambre de l'assurance de dommages, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Jean Mathieu, Director, Training and Pre-certification

Martin Lavoie, Measurement and Evaluation Advisor

Task Force on the Life License Qualification Program (LLQP)

Madeleine Plamondon, President and Chief Executive Officer, Service d'aide au consommateur, Director of the Bureau

Louise Viau, C.L.U., F. Pl., Services financiers Kingsbury-Viau, Vice-President, Insurance, Chambre de la sécurité financière, Director of the Bureau

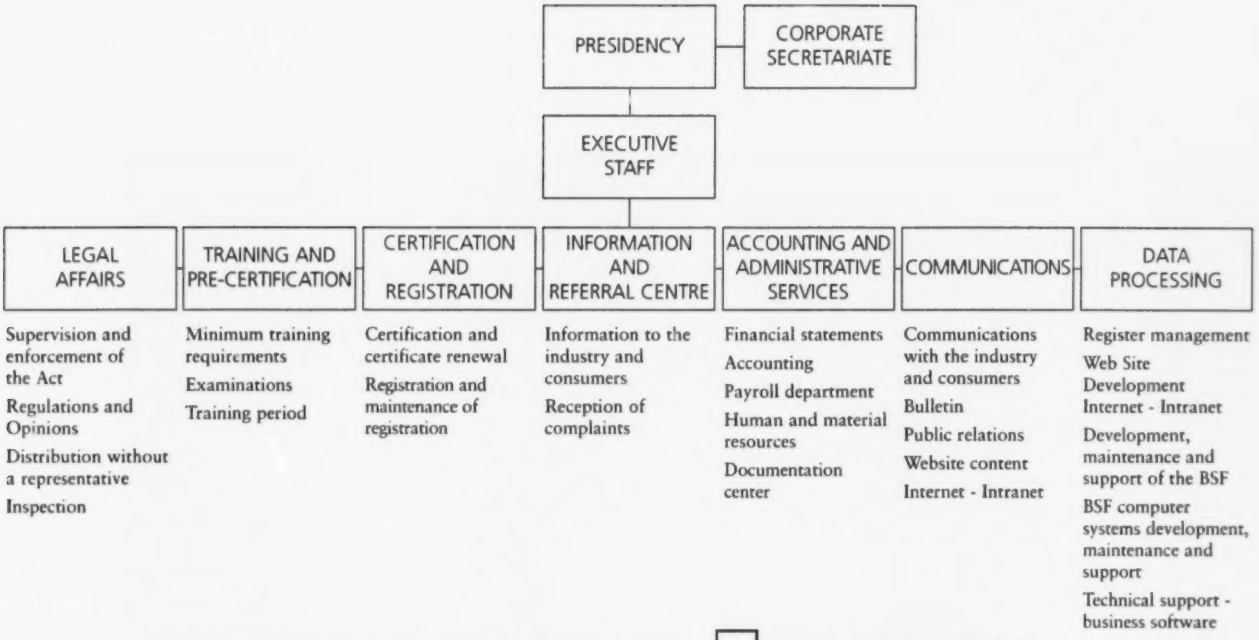
Réjean Ross, C. Adm., F. Pl., C.L.U.

PERMANENT OFFICE STAFF OF THE BUREAU

Jean Mathieu, Director, Training and Pre-certification

Daniel Laurin, Project Supervisor

Team of the Bureau



Structured into seven departments, the team is made up of 138 people out of which 98 are permanent employees. In accordance with the Act, the Bureau des services financiers has its head office in Québec City. It also keeps a place of business in Montréal.

President's role

The President is the official spokesperson of the Bureau and she supervises its operations. She exercises all the powers conferred on her by the Bureau. She chairs all the meetings of the Board and may convene them. She signs all the documents binding on the Bureau and is automatically part of all the committees created by the Board.

Annual salary: $130,983

General Manager's role

The General Manager is responsible for the management of the Bureau. He ensures the proper functioning of the operations by planning, organizing and controlling the Bureau's operations.

Annual salary: $115,000

Corporate Secretary's role

The Corporate Secretary is responsible for the organization of the meetings of the Board and oversees the preparation of the documents to be forwarded to the board members, such as the notices of meeting and the agenda. She attends the meetings, draws up and keeps the minutes. She is the executive responsible for the Bulletin and the annual report. She is also in charge of the liaison with certain organizations in and outside Québec. In addition, she acts as the returning officer for the elections of the board members of the Chambres.

Annual salary: $90,000

President's Message

It is with great pleasure that I will depict our accomplishments of last year and will present the direction we intend to take in 2003, year of the transition to the new Agence nationale d'encadrement du secteur financier.

Year 2002 was devoted to consolidating our activities, increasing our direct services to the public and pursuing our goals toward self-financing and the improvement of the quality of our customer service.

As you will note when reading our activity report, all of these objectives were achieved, indeed even exceeded in certain areas. It can thus be said that the foundations for all the new public protection mechanisms provided for under the *Act respecting the distribution of financial products and services* are now in place:

- The procedure for complaints examination done by firms that will certainly be used as a benchmark in the implementation of the approach set forth in the *Act respecting the Agence nationale d'encadrement du secteur financier;*
- The creation of the necessary decision-making committees required to study the files of representatives and registrants that do not comply with the requirements of the Act and its regulations;
- Well-established Information and Referral Centre and Inspection and Investigation Department;
- A standardized approach that makes it possible to efficiently analyze requests for opinion concerning the distribution by distributors of certain insurance products;
- The coming into force of most of the sections pertaining to disclosure, which had been put on hold since the *Act respecting the distribution of financial products and services* was enacted.

Although we focused on the consolidation of the operations, we were proactive by starting to work on new projects, among others, access to professional liability insurance, damage insurance examinations and the new life license qualification program (LLPQ) that has recently been set up by our Canadian counterparts.

We even undertook a global reflection about the entire process for accessing the career, for all of the sectors, which started with the creation of a round table bringing together colleges and industry stakeholders involved in the damage insurance field.

Since each department of the Bureau wished to be part of the reflection about the supervision of financial services undertaken in both Quebec and Canada, they stepped up their efforts to work closely on this matter. Although we did not take part in the Commission des finances publiques on the study of Bill No. 107, we thoroughly analyzed its orientations and informed the legislator of our comments and suggestions on various items such as consumer assistance services and their financing, the terms and conditions of invoicing fees and contributions as well as the principles and values underlying the redeployment of human resources.

Furthermore, our involvement in Canada-wide issues was particularly significant over the last year. I will take up the issue of the supervision of the mutual funds distribution in Québec in relation to the structure set up by the Mutual Funds Dealers Association (MFDA).

Seeking to enforce Québec's jurisdiction with regard to the distribution of financial products and services, and aware of the concerns of that industry, we put forward an original formula for the mutual recognition of jurisdictions. Up to now, both the Bureau and the MFDA are satisfied and this formula has made it possible to resolve the situation and to set up a concerted approach as regards compliance.

There will be a growing number of such jurisdictional interrelation issues in the next few years and the new mutual recognition of jurisdictions approach put forward by the Bureau will provide a new way to solve these problems.

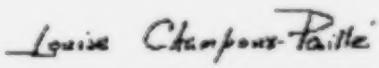
2003 Outlook

Keeping the course on the need to increase direct services to ensure the protection of the public, we will continue to display all the efforts necessary to reach our goals in terms of customer service and self-financing of our organization, while ensuring a smooth and harmonious transition to the new Agence nationale d'encadrement du secteur financier.

Being aware that continuity is an important issue in supervisory operations, we will also take the opportunity to assess our four years of existence in order to bring out what is at stake in an adequate multi-disciplinary supervisory system and the special contribution that the Bureau's personnel can make in this new perspective.

Finally, I thank the members of the Board of Directors for their professionalism and availability. Apart from the hours they spent preparing the board meetings, each and every one was involved in a number of committees and task forces. This is very indicative of the thoroughness with which they carry out their duties.

I also wish to thank each employee of the Bureau des services financiers. In a period of major legislative changes like the one we saw in the last few months, everyone put their shoulders to the wheel in order to achieve their goals while providing support to their colleagues. This concern for mutual assistance, this team spirit and this commitment to the organization are three of the great values that characterize the employees of the Bureau and that make them so invaluable in the era of change that we are now entering.



Louise Champoux-Paillé, MBA, Economist
President

Corporate Secretary's Message

The Board of Directors of the Bureau des services financiers held only five meetings in 2002, compared to ten in 2001 and fourteen in 2000, which shows that the Bureau and its Board of Directors reached their cruising speed during the year!

Overview of the issues addressed by the Bureau's Board of Directors

This annual report reflects the work done and the board members' will to encourage an efficient supervision of the distribution of financial products and services in applying the Act. Here is a quick review of the major topics covered in 2002.

- Regulations pertaining to accessing the career, disclosure, distribution guides as well as the remuneration scales and other standards applicable to the Bureau's and the Fonds' personnel were reviewed.
- Relationship with neighbouring or related organizations, such as the Mutual Funds Dealers Association (MFDA) and the Fonds d'indemnisation des services financiers, were the object of special agreements.
- Various issues were brought to the board members' attention and are still being examined, such as the situation of special brokers in damage insurance, the extent of the protection offered by compensation mechanisms when fraud occurs outside the authorized activities, and access to professional liability insurance.
- The functions pertaining to illegal practice or to the formation of decision-making committee benches have intensified, as evidenced by the number of cases processed.
- Consumers' complaints examination and the monitoring pertaining to Bill No. 107, an Act respecting the Agence nationale d'encadrement du secteur financier, remained at the center of the concerns throughout the year.

Relations between the Bureau and the Fonds d'indemnisation des services financiers – an agreement was reached

A joint committee made up of some of the Bureau's and the Fonds' board members reviewed the relations between the two organizations, the nature of the services rendered and their individual responsibilities. This approach allowed the Bureau's and the Fonds' board members to reach, to their satisfaction, an agreement concerning the fees charged by the Bureau for the managership of the Fonds' operations performed on a daily basis by the personnel of the Bureau and its infrastructure. Moreover, this committee made it possible to specify the Bureau's expectations on how the Fonds' operations should be audited.

In a different connection, the Bureau which is entrusted to appoint the Fonds' board members decided to keep the present directors in office in order to retain the expertise developed until the transition to the Agence nationale d'encadrement du secteur financier has been completed.

Elections of the Chambre de la sécurité financière and the Chambre de l'assurance de dommages – Again a success

Year 2002 was the second step in the three-year election cycle planned by the Chambres for the election of their board members. The turnover principle and the procedure are defined in each of the Chambres' regulations. These elections are held by mail and are conducted using the Bureau's register of representatives which involves that the Bureau's personnel must perform many operational duties. Moreover, the Act designates the Bureau's corporate secretary to act as chief returning officer.

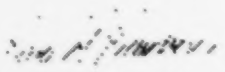
Again this year, this second step was conducted ade-

quately, allowing the representatives concerned to vote for the candidate of their choice. As part of the preparations for the third step, the Bureau and the Chambres worked on the assumption that the operations pertaining to the elections would be fully taken over by the Chambres. This would be most useful as Bill No. 107 provides that this responsibility is fully assumed by the management of the Chambres, although the next elections will be postponed because of the transition to the Agency.

Of course, I wish to thank the Bureau's and the Chambres' team members who, directly or indirectly, collaborated to the success of this activity.

2003 and the transition to the Agency

The coming year will mark the history of the Bureau since it will lead us to the new Agency. New grouping and harmonizing steps await us. It is with the same determination that we will undertake this process with a wealth of experience behind us, experience that was acquired over the last few years in the implementation of a Law and a single multidisciplinary supervisory organization.



Anne-Marie Beaudoin, Attorney
Corporate Secretary

General Manager's Message

In 2002, the Bureau des services financiers reached its cruising speed.

A promise is a promise. On the eve of the Agence nationale d'encadrement du secteur financier's creation, the Bureau brings an organization that has all the depth needed to fully fulfill its role and meet the needs of its varied clientele.

Year 2002 was packed wich challenges of all sorts. Among other things, we **finished restructuring** our various sectors of activity. Our new structure allows us to provide quality service that is closer to reality and to our clients' expectations. Our workload and operational indicators that were tightened at the beginning of the year, show that we were able to hold the course on this objective throughout the year.

We also significantly **reduced our personnel** through the re-engineering of our business processes. Such re-engineering allowed us to reach our optimum size given the technologies we currently use.

We nevertheless remain convinced that a greater use of state-of-the-art technology would enable us to keep increasing our effectiveness while reducing our costs. We will therefore promote this vision with the authorities responsible for the implementation of the new Agency.

We have finally **reached self-financing** two years earlier than expected. The achievement of this goal is the direct result of our restructuring and re-engineering efforts. Henceforth, it enables us to focus all our energies on the quality of our services and on our main mission that is, the protection of the public.

All these challenges were taken up in a spirit of boldness.

Boldness of a young team who wanted to go beyond its role as a regulator and to provide business solutions to business problems raised by its varied clientele.

Boldness of many administrators who, although this was their first experience in change management, did not hesitate to again question their paradigms in order to prove themselves that they could do more and better with less.

Boldness of the Board of Directors who listened, improved and encouraged our initiatives in order to enable the organization to push its limits.

Beyond this boldness that was the characteristic of our actions there is, of course, the human factor that I shall not leave out. The Bureau des services financiers is a fledgling organization that celebrated its third anniversary last October. The challenges it took up in this short period of time were first and foremost the result of a team effort.

In this regard, I was lucky enough to be surrounded by women and men driven by the desire to succeed. Although the road was not always easy, I believe that each one of them gained invaluable experience. They will certainly measure the benefits of this experience throughout their respective careers. I wish to thank them personally and to express my gratitude. No doubt that, without them, this restructuring would not have been possible.

2003 and the arrival of the new Agency

The implementation of the new Agency will constitute an important shift for all those involved in the financial industry in Québec.

With its unique experience in multi-disciplinarity, its expertise in change management and the quality of its resources, the Bureau is in a position to make a major contribution to the success of this new organization.

As we are bold people who can take up challenges, we will be there. It's a date!

Claude Prévost, CA
General Manager

1 Picture of the Distribution of Financial Products and Services in Québec

We are innovating this year by presenting both the persons concerned by the distribution with a representative and the distribution without a representative in order to illustrate the whole of the distribution as overseen by the Act respecting the distribution of financial products and services under the management of the BSF.

The following table shows the volume of activities and the clientele that make up the registers of the Bureau as well as their applications to the public, the partners, or the Bureau itself. These registers represent a vital sector of the operations, and the Bureau devotes a lot of resources to the registers to ensure efficient public protection mechanisms.

MULTIDISCIPLINARY REGISTERS OF THE BUREAU'S CERTIFIED REPRESENTATIVES AND REGISTRANTS

Clientele and volume of activities	Applications
DISTRIBUTION WITH A REPRESENTATIVE **Certified representatives** Up to December 31, 2002, 37,866 representatives (certified individuals) shared 55,481 rights of practice issued for the various sectors. In terms of certification, the following operations took place throughout the year: ■ Issuance of initial certificates: 4,074 ■ Certificate renewals: 34,369 ■ Addition of sectors: 1,599 ■ Reinstatements: 1,659 ■ Withdrawals and attachments to firms: over 10,000 **Registered entities** Up to December 31, 2002, 6,748 businesses comprising 3,078 firms, 27 independent partnerships and 3,643 independent representatives shared 12,758 registrations for the various sectors. As far as registration is concerned, the following operations took place throughout the year: ■ New registrations: 715 ■ Maintenance of registration: 4,988 ■ Firm mergers: 33	The general public and the industry for the verification of the rights to practice. **The Bureau:** ■ Preparation and updating of the registers ■ Collection of the fees and contributions ■ Jurisdiction of the inspection ■ Illegal practice **The Chambres:** ■ Redistribution of the contributions ■ Compulsory professional development ■ Jurisdiction of the supervision (attestations for the syndics, the cosyndic and the discipline committees) ■ Election process **The Fonds d'indemnisation des services financiers:** ■ Redistribution of the contributions ■ Jurisdiction for compensation **The Institut québécois de planification financière:** ■ Compulsory professional development **The professional orders:** ■ Registers of financial planners
DISTRIBUTION WITHOUT A REPRESENTATIVE ■ 219 distribution guides received since 1999, 156 of which are active; ■ 28 insurers; ■ 7 types of distributors: car dealers, travel agencies, trades people, financial institutions ("caisses", banks, insurance companies), sports federations, associations, finance companies.	■ The public ■ Inspector General of Financial Institutions (IGFI) ■ The Minister of Finance, for the consultations pursuant to section 428 of the Act.

In 2002

Activities related to the process of registration and reinstatement of certificates were down compared to the preceding year. In this respect, it appears to us that representatives and registrants know more about the requirements regarding their rights to practice and that the adjustment period to the new concepts introduced by the Act seems to be over.

All in all, the distribution of financial products and services industry is really active and moving again this year. The activities of the training and pre-certification department illustrate this vitality.

RIGHT TO PRACTICE: CERTIFICATION AND REGISTRATION

DETAILED PICTURE OF THE CERTIFIED REPRESENTATIVES, PER SECTOR AND SECTOR CLASS, ON DECEMBER 31, 2002

Sectors and sector classes		Number of representatives[1]
Insurance of persons		11,759
Accident or health insurance		462
TOTAL INSURANCE OF PERSONS: 12,221		
Group insurance of persons		7,034
Group insurance plans		439
Group-annuity plans		55
TOTAL GROUP INSURANCE OF PERSONS: 7,528		
Financial planning		3,512
Group savings plan brokerage		20,655
Investment contract brokerage		72
Scholarship plan brokerage		704
Damage insurance	agent	1,858
	broker	4,066
Personal-lines damage insurance	agent	1,419
	broker	902
Commercial-lines damage insurance	agent	16
	broker	154
TOTAL DAMAGE INSURANCE: 8,415		
Claims adjustment		515
Claims adjustment for personal-lines damage insurance		57
Claims adjustment for commercial-lines damage insurance		5
Claims adjustment in the employ of an insurer		1,636
Claims adjustment in the employ of an insurer for personal-lines insurance		147
Claims adjustment in the employ of an insurer for commercial-lines insurance		14
TOTAL CLAIMS ADJUSTMENT: 2,374		

1. Representatives may pursue activities in more than one sector. They may therefore be counted more than once.

PICTURE OF THE CERTIFIED REPRESENTATIVES AND REGISTRANTS AUTHORIZED BY THE BUREAU PER SECTOR, ON DECEMBER 31, 2002

Sectors[1]	Certified	Registrants		
	NUMBER OF REPRESENTATIVES[2]	NUMBER OF FIRMS[2]	NUMBER OF INDEPENDENT PARTNERSHIPS[2]	NUMBER OF INDEPENDENT REPRESENTATIVES[2]
Insurance of persons	12,221	2,357	19	3,425
Group insurance of persons	7,528	1,923	14	2,340
Financial planning	3,512	527	5	458
Group savings plan brokerage	20,655	96	–	–
Investment contract brokerage	72	11	–	–
Scholarship plan brokerage	704	10	–	–
Damage insurance	8,415	1,094	15	215
Claims adjustment	2,374	221	2	26

1. In this table, sectors include sector classes.
2. Representatives, firms, independent partnerships or independent representatives may pursue activities in more than one sector. They may therefore be counted more than once.

There was a 15% increase in the number of financial planners compared to the preceding year, whereas there was as a 22% decrease in the number of representatives in the group insurance of persons sector, which is attributable to the requalification process that began in 2002.

Special mentions on representatives' certificates	Number of representatives
Restricted to life insurance	178
Restricted to group accident or health insurance products	47
Special brokerage	10
Brokerage of loans secured by immovable hypothec	109
Claims adjustment with respect to policies underwritten through the firm to which the representative is attached	72
Investment of permanent shares and preferred shares	5,670

NUMBER OF REGISTRANTS AT THE BUREAU, ON DECEMBER 31, 2002

Registrants	Number
Firms	3,078
Independent partnerships	27
Independent representatives	3,643
TOTAL	6,748

NUMBER OF FIRMS OR INDEPENDENT PARTNERSHIPS COMPARED TO THE TOTAL NUMBER OF REPRESENTATIVES ATTACHED TO THEM, ON DECEMBER 31, 2002

Number of representatives	Number of firms or independent partnerships
1 representative or sole owner	1,623
2 to 10	1,204
11 to 50	197
51 to 100	23
101 to 500	42
501 and over	16

PICTURE OF THE MULTI-DISCIPLINARITY, ON DECEMBER 31, 2002

Number of sectors	Percentage of representatives
One sector only	69.22%
Two or more sectors	30.77%

PERCENTAGE OF REPRESENTATIVES COMPARED TO THE NUMBER OF SECTORS, ON DECEMBER 31, 2002

Number of sectors	Percentage of representatives
One sector	69.22%
Two sectors	17.82%
Three sectors	10.24%
Four sectors	2.56%
Five sectors	0.15%

BREAKDOWN OF THE CERTIFIED REPRESENTATIVES FOR EACH CHAMBRE, ON DECEMBER 31, 2002

	Total clientele[1]	Shared clientele
Chambre de l'assurance de dommages	10,850	1,278
Chambre de la sécurité financière	28,294	
TOTAL NUMBER OF REPRESENTATIVES REGISTERED WITH THE BUREAU	37,866	

1. The total clientele includes the clientele exclusive to each Chambre as well as the clientele shared by the two Chambres.

Distinctive feature of the 2002 renewal

Compulsory professional development

Certificate renewal processing time frames remained the same although the Bureau had to incorporate signals of non-compliance with compulsory professional development forwarded by the Chambre de la sécurité financière, the Chambre de l'assurance de dommages and the Institut québécois de planification financière in its criteria.

Requalification in group insurance of persons

With the coming into force of the Act respecting the distribution of financial products and services, representatives who were authorized to offer group insurance plans or group-annuity plans under the *Act respecting market intermediaries* were allowed to continue to pursue this type of activity provided they requalified in group insurance of persons under the requalification process set forth in the Regulation respecting the issuance and renewal of representatives' certificates.

The period set out for this requalification extends from July 19, 2002 until July 19, 2003. Representatives could submit proof of their requalification to the Bureau as of January 2002, or they can submit it no later than the renewal date of their certificate in the group insurance of persons sector or one of its sector classes: group insurance plans or group-annuity plans.

Three requalification options were offered to these representatives:

- Option 1: Equivalent training recognized by the Bureau,
- Option 2: Examinations administered by the Bureau,
- Option 3: Structured training of 12 or 18 hours, recognized by the Bureau.

In the spring of 2002, the Bureau thus implemented examinations for option 2 and regularly informed representatives on the requalification process.

Between August 31 and December 31, 2002, that is, over a four-month period, more than 4,000 successful applications for requalification in one of the options chosen were processed by the Bureau. The requalification period will continue until July 2003. By the end of that period, we will be in a position to draw up an overall picture of requalification.

GROUP INSURANCE REQUALIFICATION BETWEEN AUGUST 31 AND DECEMBER 31, 2002

Group insurance of persons sector classes	Number of successful applications for requalification processed by the BSF for the representatives who renewed their certificates			Requalified representatives[1]	Total number of representatives who could requalify	Percentage of requalified representatives
	OPTION 1	OPTION 2	OPTION 3			
Group insurance plans	950	72	1,291	2,232	3,710	60.16%
Group-annuity plans	570	43	1,318	1,893	3,711	51.01%

1. A representative can requalify in more than one option.

ACCESS TO A CAREER AS A REPRESENTATIVE

The requirements for accessing the career comprise the following steps: minimum training requirements, examinations, training period and, finally, application for a certificate. Depending on the sector or sector class chosen, the minimum training, examination and training period requirements vary and exemptions can apply depending on the candidate's profile.

The securities sectors are exceptions to this process since individual qualification lies in the successful completion of a training program recognized under the regulations of the Commission des valeurs mobilières du Québec (CVMQ). However, the Bureau checks whether this requirement is met upon certification. Also, in the financial planning sector, the Bureau makes sure that the candidates hold the diploma issued by the Institut québécois de planification financière (IQPF).

The minimum training

The Regulation respecting the issuance and renewal of representatives' certificates (Regulation No. 1) identifies the minimum training requirements that must be met for each sector or sector class.

Candidates can also receive recognition for an equivalency of the minimum training in two ways:

- recognition of experience,
- a level of studies equivalent to the diploma of collegial studies.

Picture of the recognition of experience

Following this type of application, the Bureau can recognize a candidate's working experience, thereby allowing him to register for the examinations. This way of accessing the career was transitional and ended on September 30, 2002, for the insurance of persons sector and will end on October 30, 2003, for the group insurance of persons sector.

NUMBER OF RECOGNITION OF EXPERIENCE APPLICATIONS UP TO DECEMBER 31, 2002

	Nombre
Applications accepted	234
Applications refused or inadmissible	30
TOTAL	264

APPLICATIONS FOR RECOGNITION OF EXPERIENCE ANALYZED PER SECTOR

Sectors	Accepted	Refused[1]	Inadmissible[2]
Insurance of persons	120 (86%)	9 (6%)	11 (8%)
Damage insurance	97 (94%)	4 (4%)	2 (2%)
Group insurance of persons	13 (86%)	2 (13%)	1 (1%)
Claims adjustment	4 (80%)	–	1 (20%)
TOTAL	234 (89%)	15 (5.5%)	15 (5.5%)

1. An application is refused when the candidate's experience is not considered pertinent.
2. An application is deemed inadmissible when the candidate does not meet the criteria required for the recognition of his work experience.

Picture of the level of studies equivalent to the diploma of collegial studies

The application for an attestation of a level of studies equivalent to a diploma of collegial studies makes it possible for candidates to be given recognition for their years of schooling so that they can be issued an attestation of equivalency of 13 years of schooling by the Bureau. Candidates can thus register for the examinations as they proved that they have a level of studies equivalent to the minimum training required to pursue activities in the chosen sector.

NUMBER OF APPLICATIONS FOR THE RECOGNITION OF A LEVEL OF EDUCATION EQUIVALENT TO THE DIPLOMA OF COLLEGIAL STUDIES IN 2002

	Number
Applications accepted	958 (90%)
Applications refused	102 (10%)
TOTAL	1,060

APPLICATIONS FOR THE RECOGNITION OF A LEVEL OF EDUCATION ANALYZED PER SECTOR CHOSEN

Sectors	Accepted	Refused	Total
Insurance of persons	663	81	744
Damage insurance	265	15	280
Group insurance of persons	7	3	10
Claims adjustment	23	3	26

We noted an increase of 23% in the number of applications for the recognition of a level of studies equivalent to a diploma of a collegial studies in comparison with the figures for year 2001 and the number of applications refused decreased by 18%.

THE EXAMINATIONS

The Bureau's examinations assess each of the skills that must be mastered to act as a representative in a given sector or sector class. The candidate must pass all the examinations to be eligible for training.

As of October 1, 2002, holders of diplomas or attestations of collegial studies in damage insurance could no longer be exempt from the examinations.

NUMBER OF PERSONS REGISTERED FOR THE EXAMINATIONS UP TO DECEMBER 31, 2002

Sectors and sector classes	Number of persons registered for the examinations[1]
Insurance of persons	1,805
Accident or health insurance	252
TOTAL INSURANCE OF PERSONS: 2,057	
Group insurance of persons	39
Group insurance plans	70
Group-annuity plans	24
TOTAL GROUP INSURANCE OF PERSONS: 133	
Damage insurance	134
Personal-lines damage insurance	706
Commercial-lines damage insurance	96
Personal-lines damage insurance (WLSP)	59
TOTAL DAMAGE INSURANCE: 995	
Claims adjustment	28
Claims adjustment for personal-lines damage insurance	18
Claims adjustment for commercial-lines damage insurance	7
Claims adjustment in the employ of an insurer	24
Claims adjustment in the employ of an insurer for personal-lines insurance	80
Claims adjustment in the employ of an insurer for commercial-lines insurance	12
Claims adjustment in the employ of a damage insurer (WLSP)	22
TOTAL CLAIMS ADJUSTMENT: 191	
Requalification in group insurance of persons	
Group insurance of persons	54
Group insurance plans	44
Group-annuity plans	17
TOTAL REQUALIFICATION IN GROUP INSURANCE OF PERSONS: 115	
TOTAL NUMBER OF PERSONS REGISTERED	3,491

1. Number of persons registered, regardless of the number of examinations passed. A person may have registered for one or several examination sessions.

Comparison of the number of persons registered for the examinations between year 2001 and year 2002

In 2002, the number of persons who registered for the Bureau's examinations totaled 3,491. In 2001, this figure was 2,879. Thus, there was an increase of 21% in the number of persons who registered for the Bureau's examinations in 2002, representing 612 persons. In addition to the increase in the number of group insurance plans and group-annuity plans requalification examinations, there was still 497 additional registration for examinations, representing an increase of 17%.

BREAKDOWN OF THE INCREASE IN THE NUMBER OF PERSONS WHO REGISTERED FOR THE EXAMINATIONS FOR EACH SECTOR

Sector		%
Insurance of persons	Increase of 112 persons	+ 6%
Group insurance of persons	Increase of 62 persons	+ 87%
Damage insurance	Increase of 162 persons	+ 21%
Claims adjustment	Increase of 101 persons	+ 113%
Requalification in group insurance of persons	115 persons	
Work-Study Learning Program (WLSP)	81 persons	

Examinations success rate

The table on the following page shows the number of examinations administered by the Bureau in 2002 as well as the success rate for each skill (examination). The success rates are available at all times on the Bureau's Web Site (www.bsf-qc.com) and they are updated monthly.

SUCCESS RATE OF THE EXAMINATIONS PRESCRIBED BY THE BUREAU THROUGHOUT YEAR 2002

Insurance of persons		INITIAL EXAMINATION		RETAKEN EXAMINATION[1]	
		NUMBER OF CANDIDATES	SUCCESS RATE	NUMBER OF CANDIDATES	SUCCESS RATE
01-101	Applying the legal concepts and the legislation pertaining to insurance of persons and to the activity of a representative	1,831	83%	271	72%
01-301	Preparing a life insurance plan	1,772	84%	211	71%
01-302	Preparing an individual disability insurance plan	1,754	81%	289	74%
01-303	Preparing an individual financial products plan	1,775	81%	255	67%
01-304	Preparing a segregated-funds proposal	1,765	90%	129	77%
Accident or health insurance					
01-102	Applying the legal and legislative concepts pertaining to accident or health insurance and to the activity of a representative	252	78%	47	66%
01-305	Preparing an accident or health insurance plan	251	81%	31	68%
Group insurance of persons					
02-103	Applying the legal and legislative concepts pertaining to group insurance of persons and to the activity of a representative	132	86%	22	86%
02-306	Preparing a group insurance proposal	93	68%	22	55%
02-307	Preparing a group-annuity proposal	43	91%	N/A	N/A
02-396	Preparing a group insurance proposal within the scope of requalification	98	90%	3	100%
02-397	Preparing a group-annuity proposal within the scope of requalification	71	70%	5	100%
Damage insurance					
03-104	Applying the legal and legislative concepts pertaining to damage insurance and to the activity of a representative	853	84%	158	77%
03-121	Activity of a representative in damage insurance	20	85%	N/A	N/A
Personal-lines damage insurance					
03-401 05-401	Analysing household insurance products	733	86%	113	74%
03-402 05-402	Analysing automobile insurance products (personal-lines)	736	87%	113	80%

1. Includes the first and the second supplemental examination.

SUCCESS RATE OF THE EXAMINATIONS PRESCRIBED BY THE BUREAU THROUGHOUT YEAR 2002 (CONT'D)

Commercial-lines damage insurance		INITIAL EXAMINATION		RETAKEN EXAMINATION[1]	
		NUMBER OF CANDIDATES	SUCCESS RATE	NUMBER OF CANDIDATES	SUCCESS RATE
03-403 05-403	Analysing automobile insurance products (commercial-lines)	112	81%	16	63%
03-404 05-404	Analysing commercial-lines insurance products, in particular direct and indirect insurance products for an enterprise	115	85%	14	64%
03-405 05-405	Analysing commercial-lines insurance products, in particular complementary products for an enterprise	103	92%	11	73%
03-406 05-406	Analysing commercial-lines insurance products, in particular liability insurance products for an enterprise, and deposit products	102	92%	14	71%
Claims adjustment					
05-105	Applying the legal and legislative concepts pertaining to damage insurance and to the activity of a claims adjuster	100	80%	18	72%
03-122 05-122	Activity of a claims adjuster	51	76%	14	79%
03-501	Settling claims in personal-lines insurance	88	92%	7	86%
03-502 05-502	Settling claims in commercial-lines insurance	25	88%	N/A	N/A

1. Includes the first and the second supplemental examinations.

The analysis of the various data on examinations has revealed an obvious increase both in terms of the number of persons registered for the examinations and the success rates, among others in the damage insurance and claims adjustment sectors. It therefore seems that the candidates are better prepared for the examinations. Moreover, the Bureau has constantly monitored this issue, as we indicated in last year's annual report. The work initiated by the task force on examinations has certainly helped to improve the situation.

THE TRAINING PERIOD

Once the minimum training has been recognized and the examinations have been passed, the candidate must go through a workplace training period. This training period lasts 90 days for a sector and 45 days for a sector class. It is required for the following sectors and their classes: insurance of persons, group insurance of persons, damage insurance and claims adjustment.

Training attestations issued in 2002

A training attestation is the official document that sets out the duration of the training period. It authorizes a candidate to pursue in a legal manner some of the activities of a representative throughout the training period.

	Number
Training attestations	3,128
Clerkship attestations issued within the scope of the WSLP	81
TOTAL	3,209

In 2002, 477 training attestations were issued, representing an increase of 17% compared to 2001.

The Work-Study Learning Program (WSLP)

It must be noted that on March 1, 2002, the WSLP was implemented mainly to make it easier to hire employees in the personal-lines damage insurance and personal-lines claims adjustment sectors classes. Under this program, an individual can work while he is studying. Thus, the WSLP facilitates access to the training periods, in particular for new hires who follow specialized damage insurance training programs (diploma of collegial studies or attestation of collegial studies in insurance, for example).

The WSLP tour: providing answers to the industry

As part of the information tour on the work-study learning program (WSLP), the training and precertification department met people from the industry in eight regions throughout the province of Québec.

The Bureau's information tour took place from September to December 2002. Representatives of the Bureau visited insurance firms and colleges to provide explanations on the WSLP. The positive comments received show that the WSLP actually meets the needs of the industry. The Bureau will continue to hold this type of meetings in 2003.

Meetings on the process for obtaining a certificate

In order to maintain constructive relations and to be receptive to the concerns of the various organizations that provide training in insurance, the training and pre-certification department regularly meets with educational consultants, professors and students in insurance training programs. During these information sessions, explanations are given on the process for obtaining a certificate, the conditions for successfully passing the examinations and the training period as well as the main regulations. In 2002, some twelve educational institutions throughout Québec were visited for both the damage insurance and the insurance of persons programs.

2 Industry Supervision and Monitoring Mechanisms

REGULATIONS

One of the main mandates assigned to the Bureau is to draft the regulations and to amend and adjust them as necessary. In addition to technical corrections, the regulations were amended this year to allow the setting-up of the Bureau's projects and initiatives.

DRAFT REGULATIONS

Draft Regulation to amend the Regulation respecting the issuance and renewal of representatives' certificates (Regulation No. 1)

The purpose of the amendments proposed to this Regulation was to:

- introduce a voluntary certification process for the people referred to in section 547 of the *Act respecting the distribution of financial products and services* (employees of section 12). The window of opportunity offered by the Bureau to avail themselves of the possibility to obtain a certificate will be 18 months. It should normally begin on July 1, 2003, and end in December 2004.
- set the conditions to successfully pass the examinations following one or more failures by the candidate as well as the requirements for accessing a career in group insurance of persons in order to enhance the minimum training requirements for that sector.
- eliminate the high school diploma as a requirement when the candidate already holds an attestation of collegial studies or a university diploma.

Draft Regulation to amend the Regulation respecting the pursuit of activities as a representative (Regulation No. 2)

In preparation for the implementation of section 26 of the Act planned for January 1, 2003, the object of this draft regulation was to determine what constitutes a business relationship as well as any benefit or interest that must be disclosed to the public within the meaning of section 26 of the Act.

Draft Regulation to amend the Regulation respecting certain notices to be remitted to consumers (Regulation No. 3)

For the coming into force of section 17 of the Act on January 1, 2003, with respect to the disclosure of compensation, the draft regulations detailed the manner in which the disclosure must take place

Draft Regulation to amend the Regulation respecting distribution without a representative (Regulation No. 4)

The Bureau wished to put sufficient resources for the application of the distribution without a representative system and the examination of the distribution guides by making it possible to self-finance this function.

This Regulation came into force on May 1, 2002.

OPINIONS TO THE GOVERNMENT WITHIN THE SCOPE OF DISTRIBUTION WITHOUT A REPRESENTATIVE

The Bureau is responsible, upon request, for providing opinions to the government pursuant to section 428 of the Act. Indeed, sections 427 and 428 of the Act allow the Government to order that the supervisory systems with or without a representative regarding an insurance product may be interchanged for any person (distributor/insurer) mentioned by the order. The Act provides that the opinion of the Bureau be obtained before the Government orders that a product subject to the distribution with a representative may be offered directly through distributors.

Over year 2002, the Bureau did not issue any new opinion concerning distribution without a representative. However, it clarified opinions given in 2000 and 2001 regarding the products offered by the Sociétés nationales des Québécoises et Québécois and the Sociétés St-Jean Baptiste.

With the help of its committee on distribution systems, the Bureau also made an assessment of the opinions it had issued pursuant to section 428 of the Act. A series of guidelines were developed in order to ensure consistency in the decisions.

DIRECTIVES

On several occasions, the Bureau was asked to give its interpretation on various sections of the Act. To that effect, information and two interpretation or application directives were published in 2002.

- Directive concerning the complaints register (Bulletin No. 23 – April 2002)
- Directive on group insurance requalification and reciprocity outside of Québec (Bulletin No. 29 – Nov. / Dec. 2002)

The directive concerning the exemptions relative to certification requirements applicable to candidates who are authorized to act in another Canadian province (adopted in April 2000) was amended so as to take into account the new requalification rules applicable to group insurance of persons.

Information to the industry

- The Bureau reminded the registrants of their obligations under the federal Proceeds of Crime and Terrorist Financing Act.
- In the context of group insurance requalification, the Bureau provided clarification on the remuneration that a representative who decides not to keep his group insurance of persons sector in force can receive.
- Faced with the many questions and perceptions of unfair treatment between the insurance and the securities sectors, the Bureau clarified the rules governing the payment of the remuneration and commission sharing for the securities sectors.

ISSUES SUBMITTED TO THE BUREAU

Limited power of attorney

The limited power of attorney form is used by a group savings firm wishing to place an order on behalf of its client with mutual funds without having to forward written instructions. The limited power of attorney authorizes the firm to place orders without the client's signature, provided that specific instructions were given.

During the winter of 2002, the Investment Funds Institute of Canada (IFIC) revised its form. The Bureau analyzed this form via its Committee on harmonization between group savings plans and segregated funds. The Bureau indicated that it strongly endorsed the use of a single form. However, it wished that changes be made to the form proposed by the IFIC. Therefore, at the end of 2002, it undertook work on this issue with a committee of the Conseil des fonds d'investissements du Québec (CFIQ).

Task force on the concept of offer

The task force on the concept of offer met twice in 2002. It determined the criteria for cross-referral and acceptable advertising without their becoming an activity exclusive to representatives. The work of the committee was suspended further to an application for declaratory judgment involving the definition of offer.

Securities firms with a single representative

The issue of the emergence of sole proprietorship firms was raised with the Committee for harmonization between group savings plans and segregated funds. As this possibility is provided for in the Act for all the sectors, the committee suggested that regulatory power be added to determine the requirements that must be met by the officer responsible for a firm registered in the securities sector. An amendment was introduced in Bill No. 107 to that effect, and it became effective on December 11, 2002.

INSPECTIONS AND INVESTIGATIONS

As regard inspections and investigations, the Bureau has continued to increase its supervision activities over distribution practices since the start of its operations. For this reason, we present the evolution of the number of cases processed since the department was set up. From 2001 to 2002, there was an overall increase of close to 50% in the number of files, for both inspections and investigations.

The significant increase in the number of requests for investigations leads us to believe that the Bureau's notoriety increases from year to year.

With regard to distribution without a representative, the many distribution guides that circulate and that contain a reference to the Bureau prove to be an efficient measure to inform consumers that recourses exist.

In relation to illegal practice, this year's decrease appears to be exceptional. It would be attributable to the filing of a complaint involving a large number of individuals in 2001, which would have temporarily exaggerated the number of cases. Special measures have been taken to ensure proper understanding of the fields of activity concerned and reserved for certificate holders.

The following sections explain the difference between inspections and investigations, and give an account of the situation for each of these activities in 2002.

Types of investigations and inspections	Number of files		
	2000	2001	2002
Investigations concerning registrants	84	125	178
Investigations on illegal practices	94	142	111
Investigations concerning distribution without a representative	2	9	28
Remote inspections	0	79	127
Inspections on location	0	67	177

INSPECTIONS

In terms of inspection, the role of the Bureau is, among others, to make sure that firms, independent representatives and independent partnerships have rules of practice that are in conformity with the legal requirements and to make recommendations on how to correct the deficiencies noted during inspections, if need be.

For this purpose, the inspection and investigation department conducts routine inspections. These inspections are done in a spirit of cooperation as the inspectors help the registrants find solutions to correct the deficiencies noted. The goal is to inspect registrants having places of business in various regions of Québec, in proportion to their representativeness.

There are two ways in which the department conducts routine inspections:

- routine inspections on location (directly at the registrants' business establishment);
- routine remote inspections (using a self-evaluation guide).

Further to inspections carried out directly at the business establishment, inspectors immediately or on the following days, give a report on which the deficiencies are noted. Registrants are then invited to sign a letter in which they acknowledge that they have read the inspection report and commit themselves to correct the deficiencies noted in the report. If the deficiencies are major and likely to jeopardize the protection of consumers, the case is referred to the registrants' decision-making committee which will then take proper action.

When remote inspections are conducted, registrants have thirty days to complete the self-evaluation guide. The coordinator of the inspection and investigation department analyzes the self-evaluation guides completed within ten days of their receipt. Where corrections are required, the coordinator sends a letter to the registrants to inform them of the changes to be made. During a subsequent inspection, these issues are the object of a special audit.

SUMMARY OF INSPECTIONS CARRIED OUT IN 2002

Types of routine inspections	Cases still under inspection on December 31, 2001	Cases submitted in 2002	Cases processed in 2002
Inspection on location	23	177	200
Remote inspection	38	127	165
TOTAL	61	304	365

In 2002, the main deficiencies noted in the course of inspections concerned the following items:

Provisions applicable to all the sectors

- Advertising, publicity or marketing not in conformity with the legal requirements (business cards, stationery, etc.)
- Complaints register and complaints examination mechanisms
- Banner
- Retention period for clients records, books and registers
- Commissions register

Insurance of persons

- Clients records
- Analysis of financial needs
- Policy replacement procedure

Group insurance of persons

- Clients records
- Keeping tenders and / or bids in clients records

Financial planning

- Drawing-up of a service mandate on financial planning

Group savings plan brokerage

- Approval and auditing of the opening of clients accounts
- Verification as to whether the transactions are adequate / Application of the rule "knowing one's client"
- Orders (purchase - redemption - transfer) and instructions register

To help registrants meet their obligations, information cards were prepared and distributed by the inspectors according to the needs that were noted. The following items appear on the cards: analysis of financial needs, separate account and the procedure for the replacement of an insurance of persons contract. A sample complaints register for registrants was also developed, in accordance with the regulations in force in 2002.

In terms of investigation, the Bureau's role is to process complaints files concerning registrants, illegal practice or distribution without a representative. Depending on the complaint received, it determines whether there was a breach of the Act.

Within the scope of distribution without a representative, the Bureau was also assigned by the Act the responsibility to resolve disputes, thus allowing it to examine civil complaints and to forward them to the distributors and the insurers concerned. The 28 requests for investigation received regarding distribution without a representative are broken down as follows: 16 penal complaints, 6 civil complaints and 6 civil and criminal complaints.

SUMMARY OF INVESTIGATION FILES IN 2002

	Files still under investigation up to December 31, 2001	Files received in 2002	Files processed in 2002
Concerning registrants	52	178	230
Illegal practice	35	111	146
Distribution without a representative	6	28	34
TOTAL	93	317	410

DETAILED PICTURE OF THE INVESTIGATION FILES PROCESSED IN 2002

	Registrants	TOTAL NUMBER OF CASES	CURRENT	INADMISSIBLE[1]	NO GROUND FOR AN INVESTIGATION[2]	INSUFFICIENT EVIDENCE	UNFOUNDED	REMINDER OF OBLIGATIONS	LETTER OF DEMAND	REQUEST FOR LEGAL ADVICE	TRANSFER TO ATTORNEY / REGISTRANTS' COMMITTEE	TRANSFER TO PROSECUTOR / CRIMINAL PROSECUTION
Alleged faults	Failure to act with honesty and loyalty in their relations with clients	30	6	2	7		9		2	1	3	
	Failure to act with care and competence	64	7	9	8	6	18	8	6		2	
	Failure to supervise adequately its representatives, employees or officers	83	37	5	9	5	14	6	3	4		
	Bankrupt registrant	3	1				1			1		N/A
	Practices not in conformity with the legal requirements	18	7		3		4	2	1	1		
	Advertising not in conformity with the legal requirements		20	4	2			3	7	3	1	
	Representatives who are not in good standing	12	2	2		1	3	1	3			
	TOTAL	230	64	20	27	12	52	24	18	8	5	
	Illegal practice											
Alleged faults	Beginning a training period without holding a training attestation	5			1		1		2	1		
	Pursuing activities that are not authorized under the certificate held	5	2				2	1				
	Person or business not authorized by the Bureau to carry on activities	29	6		1	1	11	5	5		N/A	
	Unauthorized use of a professional title	5					1		4			
	Offering financial products or services	89	10	7	4	6	24	8	19			11
	Soliciting clients	12			1	1	7		1	2		
	Outside of Québec	1						1				
	TOTAL	146	18	7	7	8	46	15	31	3		11

1. Does not come under the Bureau's jurisdiction.

2. When it appears that the alleged facts concern the actions of an independent partnership, or the only representative and officer responsible for a firm specifically, the Bureau leaves it up to the Chambres to proceed with the investigation.

3. For example: protection of personal information, sales incentives, representations with the clientele, sharing commissions with non-registered persons.

	Distribution without a representative	TOTAL NUMBER OF CASES	CURRENT	INADMISSIBLE[1]	NO GROUND FOR AN INVESTIGATION[2]	INSUFFICIENT EVIDENCE	UNFOUNDED	REMINDER OF OBLIGATIONS	LETTER OF DEMAND	REQUEST FOR LEGAL ADVICE	TRANSFER TO ATTORNEY / REGISTRANTS' COMMITTEE	TRANSFER TO PROSECUTOR / CRIMINAL PROSECUTION
Alleged faults	Failure to give adequate advice to clients	10	5	2			1		1			
	Failure to disclose one's remuneration to the client, while it exceeds 30% of the cost of the product	5	1						3	1		1
	Failure to give a copy of the distribution guide before selling the insurance product	2						2				
	Urging clients to conclude an insurance contract	7			1					5	s.o.	1
	Refusal to pay a claim	3		3								
	Insurer's refusal to pay disability insurance benefits to a client	7	2	4			1					
	TOTAL	34	8	9	1	0	2	2	4	6		2

1. Does not come under the Bureau's jurisdiction.

2. When it appears that the alleged facts concern the actions of an independent partnership, or the only representative and officer responsible for a firm specifically, the Bureau leaves it up to the Chambres to proceed with the investigation.

When the facts obtained during the investigation show that a person breached the Act or one of its regulations, the inspection and investigation department can send a letter of demand to the offender, ordering him to correct his practices for the future. In more serious cases where consumers have been wronged, the case is submitted to the legal affairs department so that proper legal action can be taken.

With respect to illegal practice and distribution without a representative, in 2002, the Board of Directors authorized that legal action be taken in eight of the cases referred by the inspection and investigation department. These eight cases led to charges being laid against ten individuals or companies.

Out of the ten cases, four were settled before December 31, 2002, either by trial or by guilty plea.

- Number of charges: 37
- Total amount of fines: $59,000

In addition, other files referred in 2001 were settled in 2002.

OTHER ACTIVITIES

Training taken by the inspectors

Inspectors took part in a three-day training session on investigation techniques organized by the Council on Licensure, Enforcement and Regulation (CLEAR). This training session brought together investigators and inspectors from Québec, Ontario, the Atlantic provinces as well as the northeastern area of the United States.

Links with partners

The inspection and investigation department worked with the Chambre de l'assurance de dommages and the Association des experts en sinistre indépendants du Québec as well as claims adjusters and insurers.

The goal was to develop a common vision of the definition of claims adjusters' activities in order to reduce illegal practice in this field.

The department was also in contact with the FINTRAC (Financial Transactions and Reports Analysis Centre of Canada) in order to develop a work process to make sure that the reporting persons and entities fulfill their obligations as regard suppression of money laundering and terrorist financing.

DECISIONS OF THE BUREAU CONCERNING REPRESENTATIVES AND REGISTRANTS

The overall controls and powers described below allow the Bureau to act rapidly when it considers that the protection of the public is in jeopardy, either before the rights to practice are issued or, in certain cases, during the practice. These powers are provided for in the Act and, as the case may be, these duties are assigned to the board of the Bureau or to a decision-making committee made up of three of its members.

Sections 218 and 219 of the Act provide for a discretionary power to revoke a representative's certificate, to suspend it, to refuse to issue it, or to impose conditions or restrictions on it, when its holder has been declared bankrupt, has been convicted of a criminal offence or an indictable offence linked with a representative's activity, or has previously had his right to practice suspended or revoked.

In addition, under section 220 of the Act, the Bureau can refuse to issue a certificate if it is of the opinion that the applicant does not possess the degree of honesty it considers necessary to pursue activities in one of the sectors, or if he is in a situation that is incompatible with the pursuit of such activities. In order to rule with diligence on the application of these powers, the Bureau set up a decision-making committee on representatives, pursuant to section 221 of the Act.

The committee also plays a consultative role with the board of the Bureau concerning the application of sections 78 and 79 of the Act. The latter empower the Bureau to refuse a registration or impose restrictions or conditions for registration, where the applicant or one of its directors or executive officers does not, in the opinion of the Bureau, show the required honesty, competence or solvency or where the registration has previously been cancelled.

Thus, the board of the Bureau may establish a registrants' decision-making committee pursuant to section 116 of the Act, to impose penalties, where applicable, on firms, independent representatives and independent partnerships that fail to comply with the obligations provided for under the Act and the regulations or, where necessary, in order to protect the public.

REPRESENTATIVES' DECISION-MAKING COMMITTEE

Chair of the committee: **Yvon Lamontagne**, F.C.I.P., Project Leader for the President, AXA Canada, Director of the Bureau

Charles Pelletier, FCA, Professor Emeritus, Université Laval, Director of the Bureau

Martin Rochon, R.L.U., F. Pl., President, Invessa services financiers, and Board Chairman, Invessa régimes collectifs, President of the Chambre de la sécurité financière, Director of the Bureau

Paul-André Simard, A.I.B., Damage Insurance Broker, President of the Chambre de l'assurance de dommages, Director of the Bureau

Louise Viau, C.L.U., F. Pl., Services financiers Kingsbury-Viau, Vice-President, Insurance, Chambre de la sécurité financière, Director of the Bureau

PERMANENT OFFICE STAFF OF THE BUREAU

Josée Cadotte, Analyst

Marie-Christine Dorval, Attorney

Isabelle Trottier, Attorney

Nature and number of cases

In 2002, the committee met nine times to analyze a total of 442 cases of bankruptcy, conviction for an offence or criminal action, incompatible situations and others.

Type of situation	Percentage of files[1]
Bankruptcy	61%
Criminal action	15%
Others	1%
Incompatible situations	21%
Sections 78-79 of the Act	2%

1. Approximately 80% of the guilty pleas for an indictable offence or a criminal act are offences against the Highway Safety Code.

Decisions rendered on the cases submitted to the committee

Out of the 442 cases, 297 representatives were permitted to pursue their activities or to start them without delay owing to the guidelines set by the committee that allow the staff to process the files. These decisions are approved by the committee at the following meeting. Therefore, 145 cases were actually submitted to the committee. Out of this number, 78 cases were the object of an intervention to ensure the protection of the public.

The object of the decisions of the decision-making committee on representatives is not to punish a representative or a candidate for present or past personal acts. In fact, the committee's work is done in a spirit of prevention and is intended to assess the risks that the situations mentioned above could represent for consumers.

DECISIONS RENDERED BY THE REPRESENTATIVES' DECISION-MAKING COMMITTEE IN 2002

Accepted	67
Accepted with conditions	41
Refused	30
Suspended	7
SUBTOTAL	145
Preapproved files	297
TOTAL	442

Finally, in order to ensure rigour and consistency in the decisions made by the committee, a handbook on the various procedures followed was developed in 2002.

REGISTRANTS' DECISION-MAKING COMMITTEE

The registrants' decision-making committee is set up as the cases arise. Each committee is made up of:

- one member appointed to represent the public;
- one member representing one of the following: financial planning, insurers, deposit institutions, mutual funds;
- one elected member from the Chambres.

The Bureau's presence is ensured by Anne-Marie Beaudoin, Corporate Secretary, and Philippe Lebel, attorney.

The first meetings of the registrants' decision-making committee were held in 2002. Throughout the year, a roll of the meetings of this committee was kept, showing the dates and the names of the files. Summaries of the decisions of this committee are published in the Bulletin.

These files originate from the legal affairs department that acts as crown attorney. The actions charged against the registrants are reported to this department mostly by the Bureau's inspection and investigation department or the certification and registration department.

Depending on the nature of the offences, these cases are the object of letters of demand. Afterward, if the fault still exists, they are referred to the Board of Directors for the formation of a bench of the registrants' decision-making committee. A "bench" is a committee of board members set up to rule on the application of the Act with respect to specific cases. Further to the designation of the bench, the secretary of the registry convenes registrants to a meeting to allow them to make their comments. Subsequently, the decision-making committee rules on the case. It can revoke or suspend the firm's or independent representative's registration or impose conditions on it.

REGISTRANTS' FILES REFERRED TO THE LEGAL AFFAIRS DEPARTMENT FOR BREACHES OF REGISTRATION CONDITIONS

Files[1] pending on December 31, 2001, at the legal affairs department for the registrants' decision-making committee	21
Files opened in 2002 at the legal affairs department for the registrants' decision-making committee	65
TOTAL NUMBER OF FILES PROCESSED IN 2002	86
Cases settled before being submitted to the Board of Directors	64
Cases submitted to the Board of Directors for the formation of a bench of the registrants' decision-making committee - Files submitted to the committee	7
Files pending on December 31, 2002, at the legal affairs department for the registrants' decision-making committee	15

1. The notion of files refers to the registration of firms or independent representatives and may include more than one alleged offence.

Registries of the decision-making committee

The Board of Directors set up eight benches of the decision-making committee in 2002 and three days/meetings were held to rule on ten files concerning registered firms and independent representatives. Out of these 8 benches, six are called "specific" because they have to make a decision about the specific file of a registrant. As for the 2 other benches, they are called "permanent" because they must take position in regard indictable offence whichever firm or independent representative is involved.

The first permanent bench concerns all types of breach of the terms and conditions of registration, and a one day/meeting was sufficient to settle seven cases. The other permanent bench concerns failures to respond to a request made by the inspection and registration department or the Fonds d'indemnisation. No meeting was required in 2002, but many cases were still pending by the end of the year.

Among the six specific benches that were set up to rule on firms and independent representatives, three files were completed in two days/meetings and three other benches are still awaiting to be set up.

Files' opened at the registry in 2002	13
Files completed	10
Files pending at the registry on December 31, 2002	3

1. The notion of files refers to the registration of firms or independent representatives and may include more than one alleged offence.

DISTRIBUTION WITHOUT A REPRESENTATIVE – ANALYSIS OF THE DISTRIBUTION GUIDES

At the beginning of 2002, the Bureau had 82 complete files of distribution guides to examine. As many insurers completed their files during the year, this number reached to 103. On the other hand, the Bureau received 38 new distribution guides for analysis and approval. Ultimately, 116 guides were subject to at least a first analysis this year.

The 116 guides examined this year are broken down in the following categories:

Category of products	Guides examined
Automobile credit insurance	28
Mortgage loan insurance	24
Travel insurance	11
Personal loan insurance	16
Mixed loan insurance	5
Credit margin insurance	8
Credit card insurance	9
Business loan insurance	10
Crop loan insurance	2
Products authorized by order	2
Products of the Caisses Desjardins	1
TOTAL	116

In 2002, the Bureau increased the resources assigned to this function to make sure that a first examination of all the guides received at the Bureau between October 1, 1999 and December 31, 2001 would be made in 2002. Actually, this initiative was successful. All the complete guides submitted during that period were examined. It should however be noted that 16 incomplete guides are still awaiting a first analysis.

It must be specified that a guide is not automatically approved after a first examination. In fact, following the first examination of a guide, the insurers might have to make a series of corrections. Once the corrections have been made, they return the guide to the Bureau for a second analysis. This process is repeated until the guide is approved. To this end, the insurers have a 120-day time frame, which can be extended to make corrections, to obtain the Bureau's approval and to put the guide in place in its distribution network.

Consequently, the examination process of a guide involves both the Bureau and the insurer. The time it takes for a guide to be approved thus depends, on the one hand, on how fast the insurer returns the corrections requested and, on the other hand, on the time taken by the Bureau to review these corrections.

In 2002, the Bureau developed a writing guide for insurers. This tool was designed to help them prepare distribution guides that are in conformity with their obligations under the Act and the Bureau's Regulation respecting distribution without a representative, and drafted in clear and plain language. This guide will be made available to insurers in March 2003.

Over year 2002, the Bureau noted that insurers were increasingly familiar with the Act respecting the distribution of financial products and services, more specifically as regard distribution without a representative.

3 The Information and Referral Centre and the Bureau's Influence

THE INFORMATION AND REFERRAL CENTRE

The Act mandated the Bureau to act as an Information and Referral Centre in the insurance field. In conjunction with its other partners, this call center informs consumers on their rights and the recourses provided for under the Act. More specifically, it serves as a clearinghouse for consumers' complaints and refers the public to the various competent authorities, among others to the Chambre de la sécurité financière and the Chambre de l'assurance de dommages. Furthermore, it guides the industry in any step having to do with the supervision of the distribution of financial products and services.

Inquiries

In year 2002, the IRC received a total of 69,762 inquiries:

- 57,875 inquiries came from people from the industry, compared to 60,477 in 2001; and
- 11,887 inquiries came from consumers, compared to 15,338 en 2001.

Inquiries are generally made by phone, but an increasing use of emails was noted; our agents processed more than 2,600 emails this year. In addition, the latter met directly with 1,136 visitors in Québec City and 1,627 at the Montréal office.

Although the inquiries received from people from the industry were varied, most of them concerned, just like last year, the access to the professional practice and certificate renewals or reinstatements. Specific inquiries on group insurance requalification were added this year.

Inquiries from consumers

Close to 70% of the consumers' inquiries are preventive in nature whereas close to 30% of people call the IRC when they have been wronged or believe they have been wronged. This data is in keeping with the one noted last year.

As was the case in 2001, more than half of the inquiries concerned the validity of representatives' and registrants' rights to practice. More specifically, consumers inquired about their rights concerning, for example, changes to the parameters of their insurance policy, the administrative processes of firms, the cancellation of an insurance policy, the refusal of an insurer to pay a benefit or to cover a risk.

As the board of the Bureau believes that these inquiries are major indicators of the situation, it periodically receives reports and analyses the trends to take appropriate action, where applicable.

Complaints

As part of its mandate, which consists of serving as a clearinghouse for complaints, the IRC received over 800 complaints that were analyzed and then referred to the competent authorities. Almost half of these complaints pertained to breaches to the codes of ethics and were referred to the syndic or cosyndic of the Chambre de la sécurité financière or the Chambre de l'assurance de dommages. The other complaints concerned registrants, people who do not hold a certificate, insurance companies or other financial institutions.

DISPATCHING OF COMPLAINTS[1] RECEIVED AT THE IRC TO THE COMPETENT AUTHORITIES

Organizations	Number of complaints 2002
Bureau des services financiers	317[2]
Fonds d'indemnisation des services financiers	43
Syndic of the Chambre de la sécurité financière	257
Cosyndic of the Chambre de la sécurité financière	102
Syndic of the Chambre de l'assurance de dommages	38
Commission des valeurs mobilières du Québec (CVMQ)	17
Inspector General of Financial Institutions (IGFI)	7
Complaints regarding products	
Canadian Life and Health Insurance Association (CLHIA)	37
Insurance Bureau of Canada (IBC)	13
TOTAL NUMBER OF COMPLAINTS RECEIVED BY THE BUREAU DES SERVICES FINANCIERS	831

1. The processing of complaints is specific to each organization. A complaint does not necessarily lead to the opening of a file. Moreover, any of the bodies listed may receive complaints directly; consequently, these complaints are not accounted for in this table.

2. 163 complaints were received directly by the Bureau's inspection and investigation department.

New complaint examination mechanism (Bill No. 107)

As part of the work of the Consumer-Liaison Committee, the Bureau conducted an evaluation of the impacts of Bill No. 107 on the operations of the IRC to prepare the implementation of the provisions relative to the new complaints examination and dispute resolution mechanisms. In that sense, we followed the evolution of the work having to do with federal initiatives on this subject.

PARTICIPATION IN PAN-CANADIAN GROUPINGS IN THE FINANCIAL SECTOR – A PRESENCE THAT WAS MAINTAINED IN 2002

Coordinated by the corporate secretary, with the support of the legal affairs department, the participation of the Bureau in the activities of Pan-Canadian groupings was maintained in 2002.

The Bureau took part in various sectional forums grouping together the regulatory organizations of the other provinces in their fields of competence, namely:

- the Canadian Council of Insurance Regulators (CCIR);
- the Canadian Insurance Services Regulatory Organization (CISRO); and
- the Joint Forum of Financial Market Regulators of Canada (Joint Forum), which includes the grouping of regulatory bodies in the fields of insurance, securities and pension plans.

The object of these groups or forums is to promote the harmonization of regulations among the jurisdictions which is called for by many stakeholders. Although the Bureau endorses such harmonization, its representations reflect a concern to preserve Québec's jurisdiction.

In this respect, to promote a concerted position of all the supervisory organizations in Québec, the Ministère des Finances created the Joint Forum of Financial Market Regulators of Québec. This group includes personnel from the following organizations:

- the Commission des valeurs mobilières du Québec;
- the Inspector General of Financial Institutions;
- the Régie des rentes du Québec;
- the Bureau des services financiers;
- the Secrétariat aux affaires intergouvernementales canadiennes;
- the Québec Ministère des Finances.

The participants in the Québec Forum inform each other on the progress of the work of the various national or international committees and forums and consult each other on the orientations to take.

The Bureau finds its position on these various initiatives with the help of its committees. The following issues have been identified as priorities.

Consumers' complaints examination and dispute resolution – (Joint Forum)

This project led to the creation of the Financial Services Ombudsnetwork set up by the major associations of the industry. However, Québec did not participate in this initiative, choosing instead to conduct its own revision of the complaints examination and dispute resolution mechanisms. This revision was fruitful since new measures came into force in priority on December 11, 2002, under Bill No. 107. The Bureau followed the Canadian work as an observer so as to stay on top of its evolution and to be prepared for the following steps aimed at setting up the Québec mechanisms.

Proposed regulatory principles for capital accumulation plans - Joint Forum

The object of this initiative is to review the supervision of capital accumulation plans. Québec is taking part in this project, but held a parallel reflection and consultation process. A task force of the Québec Forum follows this specific issue. It has identified various solutions. Before undertaking a consultation on the direction to take on this specific issue, the task force chose to conduct in-depth analysis as regard the nature of the products offered and the contractual relations of all those involved in capital accumulation plans.

Harmonization of regulations governing segregated funds and mutual funds "Rethinking Point of Sale disclosure for Segregated Funds and Mutual Funds" (standard 81-403 – Joint Forum)

The purpose of this initiative of the Joint Forum is to review, for harmonization purposes, the information forwarded when segregated funds and mutual funds are marketed and distributed. A national consultation with the industry stakeholders will most likely be held at the beginning of 2003. This issue is being followed by the Bureau's ad hoc committee on harmonization between group savings plans and segregated funds.

Draft principles and practices pertaining to the sale of products and services in the financial sectors "Practice standards" – (Joint Forum)

During year 2002, the Joint Forum continued its consultations regarding this project. The Bureau and the other supervisory authorities in Québec do not take part in this Forum because of fundamental problems related to the applicability and scope of this project. As a matter of fact, the Joint Forum is in favour of their introduction in the voluntary codes of the associations in the industry. There is a particular concern about the possibility of confusion between these principles and the current regulations among the persons subject to the Act and the public. In addition, Québec already offers a multidisciplinary supervision of distribution subject to the Act respecting the distribution of financial products and services which meets the principles that are proposed.

Registration Streamlining System (Canadian Securities Administrators (CSA) standard 31-305)

The purpose of this system is to allow representatives of securities firms already registered under a jurisdiction to apply for registration with another jurisdiction in a simple manner, without the second jurisdiction being required to authorize them. The advantage of this system is to limit administrative formalities while maintaining the authority of each jurisdiction. The Bureau gave its agreement in principle to the application of this initiative, subject to certain verifications and to compliance with the requirements that are specific to Québec.

E-commerce – (CCIR)

The Bureau commented on the report on the background work of the committee on direct distribution initiated by the Ministère des Finances.

Task Force on the Securities Transactions Settlement System (CSA)

In 2002, the Bureau continued to follow and participate in the work of this task force. Among others things, it conducted an impact analysis on the implementation of the shortened settlement period of transaction (T + 1) for the Bureau and the persons it oversees.

Afterward, it was decided by the Canadian Capitals Market Association to concentrate efforts on straight-through processing (STP) and to postpone the implementation of T + 1. The work of the task force was therefore focused on that other goal, with as the main point of study the consequences of dematerialized securities.

COMMUNICATIONS

In January 2002, the Bureau met with financial products and services consumers by participating in the Québec Savings and Investment Marketplace in Québec City and in Montréal. With a stand bearing the theme "Does your representative hold a valid right to practice?", the agents of the Information and Referral Centre answered consumers' questions by inviting them to check whether their representative held a valid right to practice issued by the Bureau.

In November, the Bureau took part in the "Congrès 2002 de l'assurance et des produits financiers" (the 2002 Insurance and Financial Products Convention), an event that brings together the stakeholders of the industry subject to the Act respecting the distribution of financial products and services. In addition, throughout the year, the Bureau responded to many requests for presentations and conferences on various aspects of the Act and its regulations.

The Bureau maintained the pace of its relations with the media, answering close to 200 inquiries on the part of the media during year 2002, both from media that specialize in the financial sector and journalists involved in public affairs and consumer programs, such as "J.E." and "La Facture".

The Web Site

The communication and electronic data processing teams worked jointly on the development of the Bureau's web site in order to implement a practical and fast tool allowing representatives and firms subject to the Act to get all the information required to obtain and maintain their rights to practice. A new free service, "Newsletter", was made available to all visitors of the **www.bsf-qc.com**. By subscribing to "Newsletter" (a service that is accessible on the home page of the site), the clientele of the Bureau receives messages informing it of the latest news that have just been put online on the Web Site. As there is increased interest for online information, the Bureau intends to keep on developing its communications on the Web.

Publications of the Bureau

- **Ten issues of the official Bulletin of the Bureau**

  The object of this publication is to inform the industry on the main activities of the Bureau with regard to, among others, the regulations and the directives issuing therefrom. The hearing roll and the summary of the decisions of the discipline committees of the Chambre de la sécurité financière and the Chambre de l'assurance de dommages are included in the Bulletin.

- **Two issues of "The News", a bulletin that is especially designed by the training and pre-certification department for teachers and teaching institutions**

  The publication "The News" presents the amendments to the Regulation respecting the issuance and renewal of representatives' certificates (Regulation No. 1) as well as the administrative procedures issuing therefrom. This bi-annual bulletin is a reference for all that concerns the minimum training requirements, the examinations, the training period and the training material.

- **The 2001 Annual Report of the Bureau des services financiers**

4 Financial Statement

AUDITORS' REPORT

To the Directors of
Bureau des services financiers

We have audited the balance sheet of Bureau des services financiers as at December 31, 2002 and the statements of revenues and expenses, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Bureau des services financiers's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton

Chartered Accountants
Quebec
February 18, 2003

STATEMENT OF REVENUES AND EXPENSES
YEAR ENDED DECEMBER 31, 2002

	2002	2001
	$	$
Revenues		
Contributions	7,115,372	6,503,802
File examination	862,446	898,775
Sales of manuals and forms	686,333	688,237
Examinations	658,372	450,602
Other services	160,419	36,859
Chambres fees	124,235	28,505
Special FIAP contribution	100,451	
FISF administrative expenses	68,031	
Analysis of distribution guides	62,090	19,501
Royalties - Centre collégial de formation à distance	5,600	24,645
Interest	68,391	101,910
	9,911,740	8,752,836
Expenses		
Salaries	5,109,561	4,956,373
Employee benefits	899,917	756,874
Directors' fees	30,400	48,300
Committee members' fees	24,500	25,450
Rental expenses	567,306	488,949
Cost of handbooks and forms sold	268,568	252,849
Messenger and postal services	226,734	231,017
Training costs	24,155	31,272
Outside professional services	167,797	417,981
Office supplies and printing	166,007	184,323
Telecommunications	150,537	198,074
Travel	142,221	181,963
Candidate exams	100,877	88,488
Taxes and permits	84,165	80,670
Maintenance and repairs	79,607	87,547
Publication and communications	61,844	125,424
Insurance	49,822	41,372
Translation	29,675	51,819
Bad debts	27,235	11,510
Equipment rentals	21,699	15,148
Professional dues	20,233	17,155
Advertising	16,088	9,406
Share of pan-Canadian organizations	9,908	
FISF administrative expenses	(159,578)	
Legislative expenses	(3,407)	(18,000)
Bank charges	66,927	55,936
Amortization of capital assets	872,637	767,631
Amortization of start-up costs	624,482	624,482
Loss on disposal of capital assets	282	508
	9,680,199	9,732,521
Excess (deficiency) of revenues over expenses	**231,541**	(979,685)

The accompanying notes are an integral part of the financial statements.

STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED DECEMBER 31, 2002

	Invested in capital assets	Unrestricted	2002	2001
	$	$	$	$
Balance at beginning of year	1,665,287	(331,841)	1,333,446	2,313,131
Excess (deficiency) of revenues over expenses	(872,919)	1,104,460	231,541	(979,685)
Interfund transfers (note 11)	409,303	(409,303)		
Balance at end of year	1,201,671	363,316	1,564,987	1,333,446

CASH FLOW STATEMENT
YEAR ENDED DECEMBER 31, 2002

	2002	2001
	$	$
OPERATING ACTIVITIES		
Excess (deficiency) of revenues over expenses	231,541	(979,685)
Non-cash items		
■ Amortization of capital assets	872,637	767,631
■ Amortization of start-up costs	624,482	624,482
■ Loss on the disposal of capital assets	282	508
	1,728,942	412,936
■ Changes in working capital items (note 4)	(821,780)	440,980
Net cash generated	907,162	853,916
INVESTING ACTIVITIES		
Capital assets	(409,475)	(704,529)
Disposals of capital assets	172	
Net cash used	(409,303)	(704,529)
Net increase in cash and term deposits	497,859	149,387
Cash and term deposits, beginning of year	3,295,676	3,146,289
Cash and term deposits, end of year	3,793,535	3,295,676

The accompanying notes are an integral part of the financial statements.

BALANCE SHEET
DECEMBER 31, 2002

	2002	2001
	$	$
ASSETS		
Current assets		
Cash	5,535	25,676
Term deposits (note 5)	3,788,000	3,270,000
Receivables (note 6)	1,238,841	157,466
Inventory	33,411	101,519
Prepaid expenses	196,090	228,908
	5,261,877	3,783,569
Capital assets (note 7)	1,201,671	1,665,287
Start-up costs (note 8)	1,092,842	1,717,324
	7,556,390	7,166,180
LIABILITIES		
Current liabilities		
Payables (note 10)	1,056,738	1,675,610
Deferred revenue	4,934,665	4,157,124
	5,991,403	5,832,734
NET ASSETS		
Invested in capital assets	1,201,671	1,665,287
Unrestricted	363,316	(331,841)
	1,564,987	1,333,446
	7,556,390	7,166,180

The accompanying notes are an integral part of the financial statements.

On behalf of the Board,

Louise Champoux-Paillé
Director

Director

Notes to financial statements as at December 31, 2002

1 - GOVERNING STATUTES AND NATURE OF OPERATIONS

The mission of the Bureau des services financiers, which was created under the Act respecting the distribution of financial products and services adopted on June 19, 1998, is to ensure the protection of the public with respect to the distribution of financial products and services in the fields of activity under its authority, namely: personal insurance, group insurance, damage insurance, claims adjustment, financial planning, group savings plan brokerage, investment contract brokerage and scholarship plan brokerage.

In accordance with the Act, the Bureau is a legal person. It is not a public body, a government body or agency, or a government corporation within the meaning of the Financial Administration Act, the Act respecting the Ministère des Affaires internationales, de l'Immigration et des Communautés culturelles, the Act respecting the Ministère du Conseil exécutif or the Auditor General Act.

When certain provisions of the Act respecting the distribution of financial products and services came into force, the property, rights and obligations of the Conseil des assurances de personnes and the Conseil des assurances de dommages were transferred to the Bureau des services financiers.

On December 11, 2002, the Québec government adopted Bill 107 respecting the Agence nationale d'encadrement du secteur financier (projet de loi n° 107).

This draft legislation serves to combine several development organizations in the financial services and public protection industry.

- Bureau des services financiers (BSF)
- Fonds d'indemnisation des services financiers (FISF)
- Commission des valeurs mobilières du Québec (CVMQ)
- Inspecteur général des institutions financières (IGIF)
- Régie de l'assurance-dépôt du Québec (RADQ)

These organizations will be combined to form the new Agence nationale d'encadrement du secteur financier. The date on which the Agence will commence operations is currently unknown. Each of the individual organizations will continue with its regular activities of applying legislation until the Agence officially begins operating.

On February 7, 2003, the Québec government set up a transitional committee to determine how the actual merger will take place and how the Agence will operate and be structured. Since the transitional committee's work is expected to last 12 months, the Agence should begin operating in 2004.

2 - NON-CONSOLIDATED CONTROLLED ORGANIZATION AND RELATED PARTY TRANSACTIONS

The Bureau des services financiers exercises a control over the Fonds d'indemnisation des services financiers, appointing the members of this Fund's Board of Directors under the Act respecting the distribution of financial products and services. It also determines the Fonds d'indemnisation des services financiers' by-laws and has set the rules governing claim administration and eligibility. The mission and responsibility of the Fonds d'indemnisation des services financiers are to administer funds deposited with the Fund and to compensate individuals who have been the victims of fraud, fraudulent tactics or embezzlement for which a firm, independent representative or an independent company may be held liable in connection with its activities. The Fonds d'indemnisation des services financiers has responsibility for deciding the eligibility of claims. It also determines its operating expenses.

The financial statements of the Fonds d'indemnisation des services financiers are available on request. The condensed financial statements of the Fonds d'indemnisation des services financiers as at December 31, 2002 and 2001 and for the years then ended are as follows:

2 NON-CONSOLIDATED CONTROLLED ORGANIZATION AND RELATED PARTY TRANSACTIONS (SUITE)

	2002	2001
	$	$
Financial position		
Total assets	7,531,985	6,194,422
Total liabilities	4,317,719	3,376,851
Fund balances	3,214,266	2,817,571
	7,531,985	6,194,422
Results of operations		
Total revenues	2,794,107	2,551,412
Total expenses	2,397,412	1,027,629
Excess of revenues over expenses	396,695	1,523,783

The Bureau des services financiers makes available to the Fonds d'indemnisation des services financiers human resources, capital assets and rental space. During the year, the Bureau des services financiers charged $595,486 ($220,653 in 2001) for the use of these resources. Following an agreement signed during the year, this amount includes an additional expense of $155,046 for administrative expenses incurred for 1999, 2000 and 2001 that were not taken into account during these years and part of the start-up costs that had to be incurred during implementation. These transactions were concluded in the normal course of the organizations' operations and were measured at the exchange amount, i.e. the value determined and accepted by the parties. As at December 31, 2002, the Fonds d'indemnisation des services financiers owed $74,899 ($23,699 in 2001) for such expenses.

Moreover, the Bureau des services financiers collects dues on behalf of the Fonds d'indemnisation des services financiers. As at December 31, 2002, the balance of dues collected by the Bureau des services financiers to be remitted to the Fonds d'indemnisation des services financiers was $42,939 ($115,550 in 2001).

3 ACCOUNTING POLICIES

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Organization may undertake in the future. Actual results may differ from those estimates.

Inventory valuation

The inventory, which consists mainly of training manuals, is valued at the lower of cost or replacement cost, cost being based on the average cost method.

Short-term investments

Short-term investments are evaluated at cost.

3 - ACCOUNTING POLICIES (SUITE)

Start-up costs

Start-up costs were incurred for the establishment of the Bureau des services financiers. These expenses represent mainly the remuneration and professional fees for the purpose of hiring human resources, and expenses relating to the holding of the first meetings of the Board. The fees are amortized according to the straight-line method over a five-year period ending October 1, 2004.

Amortization

Capital assets are accounted for at cost and amortized over their estimated useful lives using the straight-line method over the following periods:

Office furniture and equipment . . . . . .5 years

Computers, software, systems development and training material . . . . . .3 years

Leasehold improvements . . . . . .Remaining term of the leases

Income recognition

Income from contributions

Income from contributions is accounted for according to the accrual basis of accounting. The amounts invoiced for a period exceeding the end of the year are accounted for as deferred income.

Income other than contributions

Income other than contributions is accounted for when the supply is delivered or the service provided.

4 - INFORMATION INCLUDED IN THE CASH FLOW STATEMENT

The changes in non-cash working capital items are detailed as follows:	**2002**	2001
	$	$
Receivables	**(1,081,375)**	115,190
Inventory	**68,108**	17,631
Prepaid expenses	**32,818**	(77,029)
Payables	**(618,872)**	(216,432)
Deferred revenues	**777,541**	601,620
	(821,780)	440,980

5 - TERM DEPOSITS

Term deposits bear interest at rates varying between 2.50% and 3.05%, and expire on different dates up to December 2003.

6 - RECEIVABLES

	2002	2001
	$	$
Contributions	1,116,869	109,384
Fonds d'indemnisation des services financiers	31,960	
Chambre de la sécurité financière	2,163	
Other	87,849	48,082
	1,238,841	157,466

7 - CAPITAL ASSETS

			2002
	Cost	Accumulated amortization	Unamortized cost
	$	$	$
Office furniture and equipment	472,596	252,613	219,983
Data processing equipment and software	921,554	705,372	216,182
Systems development	1,299,728	861,637	438,091
Training material	363,140	182,984	180,156
Leasehold improvements	275,879	128,620	147,259
	3,332,897	2,131,226	1,201,671

			2001
	Cost	Accumulated amortization	Unamortized cost
	$	$	$
Office furniture and equipment	465,121	161,786	303,335
Data processing equipment and software	845,103	438,289	406,814
Systems development	1,096,195	503,264	592,931
Training material	306,902	80,414	226,488
Leasehold improvements	213,860	78,141	135,719
	2,927,181	1,261,894	1,665,287

Systems development and training material include the amounts of $70,311 and $35,126 respectively for capital assets that have not been amortized since they were being developed.

8 - START-UP COSTS

			2002
	Cost	Accumulated amortization	Unamortized cost
	$	$	$
Start-up costs	3,139,883	2,047,041	1,092,842

			2001
	Cost	Accumulated amortization	Unamortized cost
	$	$	$
Start-up costs	3,139,883	1,422,559	1,717,324

9 - DUE TO THE MINISTÈRE DES FINANCES DU QUÉBEC AND BANK LOAN

The short-term loan initially authorized by order-in-council 105-2001 is currently being renewed by the Québec government. This authorized loan in the amount of $3,000,000 bears interest at the rate of one-month bankers' acceptances, plus 0.3% until maturity. As at December 31, 2002, this short-term loan was unused.

10 - PAYABLES

	2002	2001
	$	$
Accounts payable and accrued liabilities	900,968	1,169,738
Fonds d'indemnisation des services financiers		91,851
Chambre de la sécurité financière		33,564
Chambre de l'assurance de dommages	155,770	380,457
	1,056,738	1,675,610

11 - INTERFUND TRANSFERS

During the year, unrestricted funds totalling $409,303 were transferred from the administrative fund to the capital assets fund to fund net cash used for capital assets

12 - COMMITMENTS

The Organization has entered into long-term lease agreements expiring on various dates until 2007 which call for lease payments of $2,169,274 for the rental of office space in Québec City and Montréal and for the rental of office equipment. The minim lease payments for the next five years are $692,576 in 2003, $587,638 in 2004, $424,628 in 2005, $424,101 in 2006, and $40,331 in 2007.

Moreover, under a group registered retirement savings plan the Bureau des services financiers has agreed to pay an amount equal to the contribution of employees meetings the conditions of the employer's contribution, up to 6% of the employee's annual salary. The expense for the year relating to these contributions totals $213,661 ($154,985 in 2001).

13 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of cash, term deposits, accounts receivable and accounts payable approximates the carrying amount thereof given the short-term maturity.

14 - COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.